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NATIONAL ACCOUNTS AND BALANCES: SYSTEM OF NATIONAL ACCOUNTS (SNA)

Recommendations of the Inter-Secretariat Working Group on National Accounts on specific issues concerning the revised SNA

Report of the Inter-Secretariat Working Group on National Accounts

SUMMARY

The present report was prepared by member organizations of the Inter-Secretariat Working Group on National Accounts (ISWGNA). This report reflects decisions taken by the ISWGNA at its 14-16 December 1992 meeting that affect the second draft of the revised SNA (PROVISIONAL ST/ESA/STAT/SER.F/2/Rev.4), which is being considered by the Commission. These decisions respond to issues brought to the attention of the ISWGNA through the broad distribution of the revised draft SNA, including, but not limited to (1) written comments from statistical offices and other experts channelled through the Statistical Division of the United Nations and the United Nations regional commissions, (2) comments from the 1992 Interregional Seminar on the Revision of the SNA (IRS), and (3) comments from the Sixth Expert Group Meeting on SNA Coordination (EGC6). The report is organized around issues, regardless of their source. Section I of the report addresses major substantive issues. Each issue is outlined, concluding with the ISWGNA recommendation for resolution. Section II of the report addresses additional technical points. This section is intended simply to inform the Statistical Commission of changes that will be made to the draft revised SNA currently before them. Section III suggests a process for completion of the SNA draft and final publication.

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INTRODUCTION

1. At its present session the Commission has before it the second draft of the revised System of National Accounts (SNA) (PROVISIONAL ST/ESA/STAT/SER.F/Rev.4). As indicated in the report of the revision of the SNA (E/CN.3/1993/4) also before the Commission, this draft revised SNA has received wide circulation to national statistical offices and interested experts throughout the world facilitated by the Statistical Division of the United Nations and the United Nations regional commissions. In addition, the Interregional Seminar on the revision of the SNA (IRS) and the Sixth Expert Group Meeting on SNA Coordination (EGC6) were held in October 1992. The report of the IRS (ESA/STAT/AC.43/8) is also provided to the Commission as a background document. Through these mechanisms, the Inter-Secretariat Working Group on National Accounts (ISWGNA) has provided the broadest opportunity for a fully representative range of experts from different countries to be involved in the final substantive review of the draft revised SNA. The success of this broad involvement is reflected in the large number of written comments received, the thoughtful involvement of over 50 experts at the IRS, and, of course, the continuing involvement of the EGC. The ISWGNA wishes to express their appreciation to all those who have participated in the process. Their comments will significantly enhance the revised SNA.

2. The feedback on the second draft of the revised SNA currently before the Commission has been universally positive. Yet, any undertaking with the magnitude and complexity of the current revision will generate unforeseeable issues in its last stages. The ISWGNA, in balancing the summer deadline for forwarding a complete draft to the Commission and the desire for a broad final review, agreed to meet in December 1992 to respond to any issues that had been brought to its attention after the summer deadline and to communicate to the Commission any changes to the second draft of the revised SNA engendered by this broad review. It should be noted that, of the numerous issues encountered throughout the entire SNA revision process, there are very few that needed to be brought to the attention of the Statistical Commission in this report.

3. The report that follows addresses the issues brought to the attention of the ISWGNA through this process and identifies for the Commission changes to the second draft that the ISWGNA recommends. Major substantive issues are dealt with in section I. In each case, the ISWGNA concludes the issue discussion with a clear statement of the treatment the ISWGNA recommends.

4. Section II of this report addresses additional technical points. As noted in the report of the revision of the SNA (E/CN.3/1993/4), to meet the summer deadline and the ISWGNA's desire for an open process, the chapters were completed on a flow basis. As a result, some issues did not emerge until after some chapters had been completed. These technical points, or anticipated reworking, are included in this report simply to inform the Statistical Commission of changes that will be made to the draft that is

before them today. Section III briefly describes the process for completion of the SNA draft.

I. MAJOR SUBSTANTIVE ISSUES

5. The following issues have been the subject of extensive discussion and controversy throughout most of the revision process.

1. Financial intermediation service charges indirectly measured

6. The measurement and treatment of the financial intermediaries service charges has been perhaps the most difficult issue dealt with in the revision of the SNA. It is generally accepted that financial intermediaries do provide output in the form of a service and that this output is consumed by all sectors and the rest of the world. The treatment recommended in the 1968 SNA, which adopts an arbitrary convention whereby the entire output is absorbed as intermediate consumption of a nominal unit, is considered seriously deficient from both a conceptual and analytical point of view. After extensive discussion in the Expert Group meetings, the draft revised SNA maintains the same measurement of the output of financial intermediaries as in the 1968 SNA but recommends the consumption of this output be attributed to the users of the services. This recommendation has been queried partly on conceptual but mainly on practical grounds. It may be noted that the IMF Balance of Payments Manual (5th edition) does not recommend the attribution of the service charges in imports and exports. Even so, after careful consideration, and taking account also of the support for the recommendation expressed by many participants at the interregional meeting in Mexico, the ISWGNA recommends that the Statistical Commission accept the treatment in the draft revised SNA. However, given the importance of this item and the nature of the remaining uncertainties on practical implementation, it is also recommended that the ISWGNA commission a detailed implementation guide in the immediate future.

2. Imputed rent on government buildings

7. The draft revised SNA includes imputations for rent on buildings owned and occupied by government and NPIs. However, considerable unease with this treatment was expressed in some regional meetings, written comments received and also in the Interregional Seminar on the SNA in Mexico. The report of that meeting describes the practical difficulties, and conceptual problems concerned. The imputation implicitly introduces a net operating surplus for the non-market activities of government and NPIs. It was also argued that the inclusion of these imputed rents introduced the concept of the cost of capital, but a more extensive coverage of capital assets than buildings might be appropriate if such a concept is introduced.

8. The ISWGNA therefore recommends to delete these imputed rents from the draft and to place the issue of capital cost on the agenda of issues for future SNA research.

3. Monetary gold

9. With respect to the treatment of gold in the System, the draft recognizes as a financial asset only gold held by the monetary authorities as part of international reserves (monetary gold). Gold held as a store of value by any institutional sector will be classified as valuables; all other gold will be treated as any other commodity. This treatment is fully harmonized with the treatment of gold in the IMF Balance of Payments Manual, but represents a change from the 1968 SNA, in which any sector could hold gold as a financial asset. A number of countries that have large transactions in gold by others than the monetary authorities have expressed the desire to maintain the 1968 treatment of gold, but a large majority of countries and the Expert Group on SNA Coordination have consistently supported the new treatment. The ISWGNA therefore recommends that in the revised SNA only monetary gold be considered a financial asset and no changes in the present text are required.

4. Market/non-market output

10. The draft revised SNA divides output into market output and non-market output. Market output is output that is sold at economically significant prices. All other output is non-market output. The latter includes output which is valued at average prices of similar goods traded on the market (e.g. subsistence output) as well as output which is valued at cost (e.g. services provided by government and non-profit institutions). Several commentators have noted that there are advantages in distinguishing systematically between these two kinds of output and the ISWGNA therefore recommends that a three-way split should be introduced, separating market output, output for own use and other non-market output.

5. Mineral exploration

11. The draft revised SNA classifies expenditures on mineral exploration as gross fixed capital formation. Although some countries expressed reservations, in light of the fact that a number of countries already find it useful to classify mineral exploration as capital formation, the ISWGNA recommends maintaining the treatment in the present text.

6. Consumer subsidies

12. Many participants at the Interregional Seminar in Mexico expressed the view that "consumer subsidies" were important in many developed and developing countries as well as in countries in transition. It was pointed out that the

treatment in the draft revised SNA, which retained the 1968 treatment, had been discussed at length by the Expert Group on several occasions but it had not been possible to reach agreement within the group on the extent and type of payments that should be treated as subsidies which are mainly for the benefit of consumers and those which are mainly for the benefit of producers. It has not been possible to find a solution which would command general support for inclusion in the 1993 SNA, but the issue deserves further research in the immediate future.

7. Formal/informal

13. The usefulness of a distinction between formal and informal activities has been widely recognized. However, efforts to date by the ILO, the lead agency in this area, to evolve appropriate criteria that could be applied in a variety of economic and social circumstances have shown it very difficult to establish a set of criteria that can be universally applied. The ISWGNA recommends that the revised SNA should continue to reflect these points, and that the ISWGNA continue to interact with the ILO with the objective of defining formal/informal activities in a more operational manner that would meet analytical needs.

8. Environmental accounting

14. While there was general support for including a separate section on integrated economic environmental accounting in the chapter on satellite accounts of the revised SNA, some commentators advocated a more balanced presentation of environmental accounting between monetary and physical terms. In response to these comments, although the text will present a valuation in monetary terms of flows and stocks related to natural assets and the corresponding derivation of environmentally adjusted measures of net domestic product, the text will also contain a set of tables showing volumes and measures in physical terms. When presenting the valuation options, most emphasis will be on market valuation (compatible with the valuations used in the SNA) of flows and stocks related to depletion and degradation of natural assets and less on alternative imputed valuations which particularly relate to the incorporation of degradation effects.

II. TECHNICAL POINTS

15. The following points which involve changes to the draft of the revised SNA before the Statistical Commission were agreed by the Expert Group on Coordination at their meeting in Mexico and are endorsed by the ISWGNA.

1. Time of recording taxes on income

16. The draft revised SNA recommends that in principle all taxes should be recorded on an accrual basis, i.e., when the activity that gives rise to the tax liability takes place. This treatment usually presents few difficulties with regard to the recording of taxes on production and on products where there are usually only minor delays between the activity that gives rise to the tax (production, sales, etc.) and the determination of the tax liability. This, however, may not be the case in a number of countries with regard to taxes on income, when the liability can only be determined in an accounting period after the income is earned and attributing the liability to the earlier period may cause substantial difficulties. It is therefore proposed that the text of the present draft be revised to allow flexibility in the time of recording of taxes on income. All deductions at source, PAYE, and regular prepayments of income taxes will be recorded in the periods in which they occur and any final tax liability on income can be recorded in the period in which the liability is assessed.

2. Net worth of quasi-corporations

17. The draft revised SNA identifies as quasi-corporations only those unincorporated enterprises that maintain full sets of accounts including information on withdrawals from entrepreneurial income. Because of the availability of full information, the present text states in several places that a quasi-corporation may have a net worth independent from that of its owners. Further discussion on this issue has led to the conclusion that although conceptually a quasi-corporation might be considered to have its own net worth, there may be no conditions in which it would be possible to estimate that separate net worth. Therefore, the text will be revised to indicate that in the System quasi-corporations will never, in practice, have their own net worth independent from that of their owners.

3. Private funded pension schemes

18. The coverage of funded pension schemes as described in paragraph 62 of chapter VIII on the Secondary Distribution of Income will be extended to include schemes in which employers maintain non-autonomous pension funds whose reserves are separated from the employer's other reserves even though the funds are not separate institutional units from the employers that administer them. Unfunded schemes are confined to schemes in which employers pay pensions without creating special reserves for the purpose.

4. The output of non-life insurance

19. The method of measuring the output of non-life insurance services described in paragraph 147 of chapter VI will be changed to utilize an

accounting identity similar to that used to measure the output of life insurance.

5. The output of autonomous pension funds

20. The measurement of the output of autonomous pension funds will be changed from the costs of administering such funds, as stated in paragraph 148 of chapter VI on the Production Account, to use an accounting identity similar to that used to measure the output of insurance services as described in paragraph 146.

6. The time of recording gross fixed capital formation in large equipment goods

21. The time of recording of gross fixed capital formation in large equipment goods, such as ships, aircraft, etc., will be clarified. In general, gross fixed capital formation is recorded when the ownership of the assets passes from the producer to the user. In the case of large equipment goods, the change of ownership is deemed to occur when the users take delivery of the goods. Any large equipment goods that are not yet delivered form part of the inventories of their producers, being recorded under additions to inventories of finished goods, or to work-in-progress, depending upon whether they are finished or not.

III. COMPLETION OF THE SNA DRAFT

22. The most important task after the Commission's approval is the completion of the SNA document and its publication. On the assumption that the Commission accepts the ISWGNA's recommendations in this report and the second draft, the text will be revised and finalized. This will require careful drafting by the authors and editing and cross-referencing to ensure consistency throughout the document. It is presently envisaged that the revised SNA could be published in at least three languages before the end of 1993, with other languages following in 1994.

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Report of the Intersecretariat Working Group on National Accounts

Addendum

1. The Intersecretariat Working Group on National Accounts (ISWGNA) makes the following recommendations on a possible approach to financial intermediation service charges indirectly measured:

(a) Accept the present statement in the text that "in principle, the total output should be allocated among uses for which no explicit charge is made";

(b) Permit those countries or groups of countries that cannot at present allocate these charges explicitly to specify users to allocate them all to intermediate use (the 1968 SNA de facto solution);

(c) Permit those countries or groups of countries that can allocate charges to both intermediate and final use to do so;

(d) Request those countries that allocate charges entirely to intermediate consumption to prepare, as soon as they can, supplementary estimates showing an explicit allocation to specific users and the effect this has on gross domestic product (GDP), gross national income (GNI) and other relevant aggregates;

(e) Request those countries that allocate charges to both intermediate and final use to identify separately those allocations.

The information provided in the last two elements of the proposal would facilitate international comparisons on either basis.

While this is not an ideal solution, it does allow the conceptual framework to recognize that these services can be provided to final users, while permitting sufficient flexibility to countries under different circumstances.

In addition, it would be useful if the Statistical Commission could request ISWGNA to place the highest priority on developing practical guidelines for implementation in the near future. This work should draw on the experiences of those countries that are currently implementing, or that are about to implement, a system of full allocation in order to review their procedures, and also on the work recently done in some countries that indicated major impediments to full allocation.